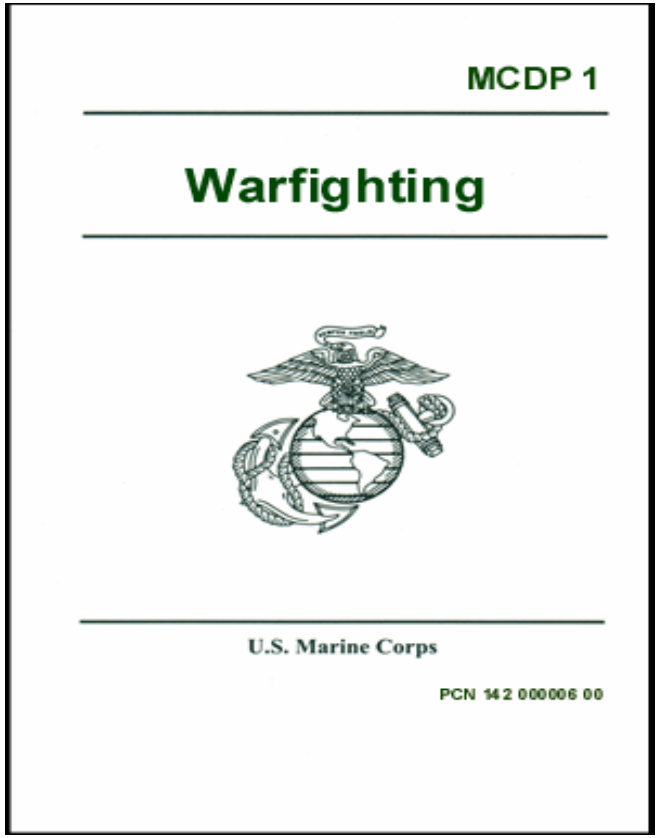
Strategic Purchasing Initiative (SPI)

PURPOSE & VISION

October 2004

Business Transformation: Bottom Line



Economy of Effort

"The willingness to focus at the decisive place and time necessitates strict economy and the acceptance of risk elsewhere and at other times.

To devote means to unnecessary efforts or excessive means to necessary secondary efforts violates the principle of focus and is counterproductive to the true objective.

Focus applies not only to the conduct of war but also to the preparation for war."

THE BURNING PLATFORMS
or
WHY WE NEED TO CHANGE
or
How Parochialism Hurts the Corps

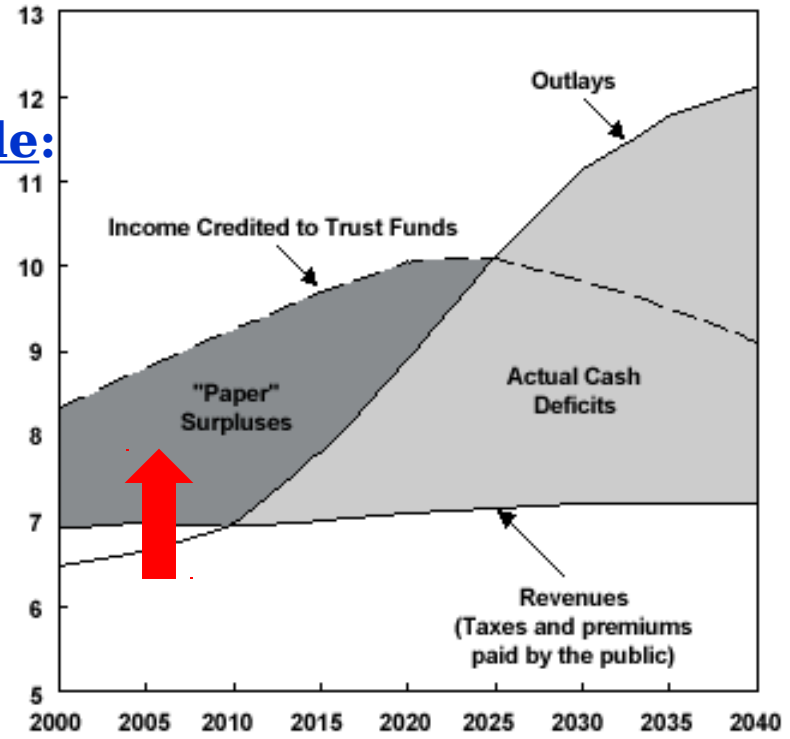
October 2004

Pressures

Projected Outlays for Social Security and Medicare Outstrip the Programs' Revenues Sooner Than the Trust Funds Reflect

(By calendar year, as a percentage of GDP)

USMC pressures include:
- Modernization
- Aging equipment
- Aging facilities
- Increased QOL
- GWOT



Source: Congressional Budget Office based on Social Security Administration, *The 2002 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds* (March 26, 2002); and Department of Health and Human Services, Centers for Medicare and Medicaid Services, Office of the Actuary, *2002 Annual Report of the Board of Trustees of the Federal Hospital Insurance and Federal Supplementary Medical Insurance Trust Funds* (March 26, 2002).

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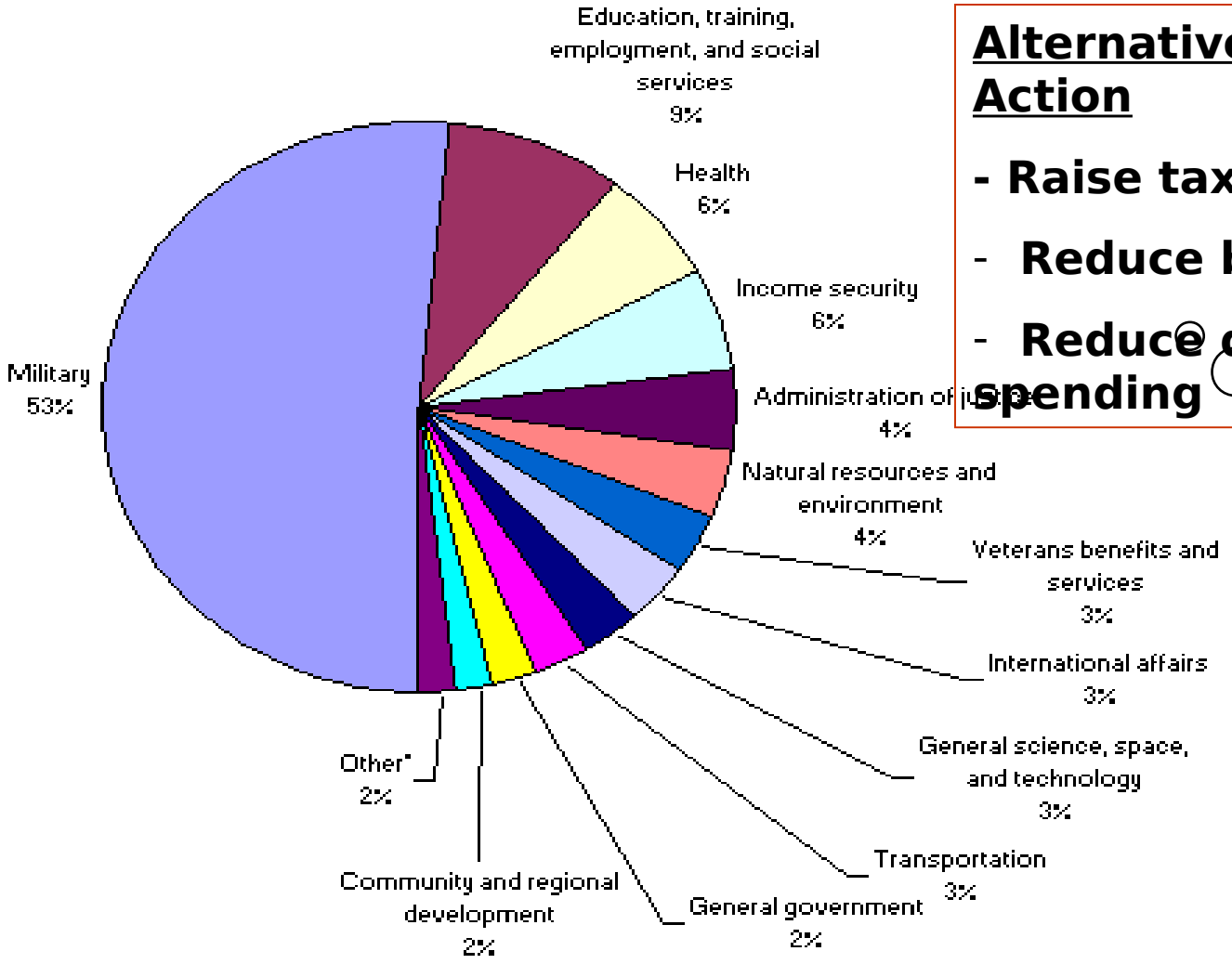
Politically Radioactive Solutions



Alternative Corrective Action

- **Raise taxes**
- **Reduce benefits**
- **Reduce discretionary spending**

More extreme corrective action required as time passes

Defense as a share of total discretionary spending

Strategic Business Plan Goals

- **Aggressively** improve business processes **based on:**
  - 5 MROC decisions
  - CMC POM06 guidance
- **Bottom line metrics:**
  - Realign 1,700 Marines to operating forces (by FY12)
  - Realign $600M ($40/$120/$200M annually by FY 08/10/12)
  - Clean Financial Audit (FY 07)
- **Key secondary metrics:**
  - ABRM Policy published
  - Satisfaction/performance measurements
  - Competitive sourcing meets MROC decision metrics (900 Marines)
  - Business information standards and architecture
  - Percent of OPBUD's organized with essential info elements

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STRATEGIC PURCHASING INITIATIVE

October 2004

Service Acquisition Burning Platform

- **Resources**
  - Over half of our purchasing is acquisition
  - $2.9B non weapons system
- **Training**
  - Little or no systematic training
  - Ultimate customers lack confidence in contract support
- **Organization**
  - Little understanding of the process and who owns it
  - Process is slow and unfriendly - driving customers out of USMC at 3-5% premium for contract support

SPI

Why SPI?

IMPROVED SUPPORT TO THE WARFIGHTER

Purchasing Best Practices & Best Choices

SPI

What is Strategic Purchasing Initiative (SPI)

- **A strategic approach to purchasing goods and services**
- **Covers:**
  - Resources
  - Training
  - Organization and structure
- **Based on significant analysis**
  - Spend analysis
  - LR/LB research
  - Other organizations
- **Linked to PPBE to assist CMC afford MAGTF 2015 capabilities**

Private Sector SPI Actions and Successes

- **Actions**
  - Conduct firm-wide spend analysis
  - Rationalize supply base, consolidate contracts
  - Establish long-term partnerships with best suppliers
  - Help key suppliers improve quality, cost, service
  - Integrate key suppliers into organization
- **Results**
  - Ford Motors saved 3% a year of purchases
  - AMR saved 20% over 5 years
  - Honda saved 17% over 4 years
  - Chrysler saved 4% a year for six years
  - Many firms realize reductions in inspections and improved delivery or service/product

Source: RAND Project Air Force Report
Implementing Best Purchasing and Supply Management Practices - 2002

More SPI Success By Others

- **DoN Administrative Services**
  - Minimalist scenario 1% Savings vs Aggressive scenario (3.5%)
  - Benefits include socio-economic primes becoming more competitive
- **USAF - Commodity Councils**
  - Wave I - Aircraft Accessories/Landing Gear/Ground Equipment
  - Wave II – Engines/Electronics/Secondary Power
  - Wave III – Aircraft Structural/Instruments
- **Private Industry**
  - Aberdeen Group low balls saving at 30% & exceeds client expectations
  - Numerous financial success stories & improved support to operators

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Leveraging the Total Force

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SPI IPT Mission

Conduct an end-to-end review of Marine Corps' <u>product and service acquisition practices</u> in order to identify opportunities for improvement.

Coordinate the development, approval, and implementation of action plans based on the following approaches:

(1) Coordination of Marine Corps purchasing related initiatives

(2) Process mapping, analyses, and best practices

(3) Spend analyses, commodity councils, and benchmarking

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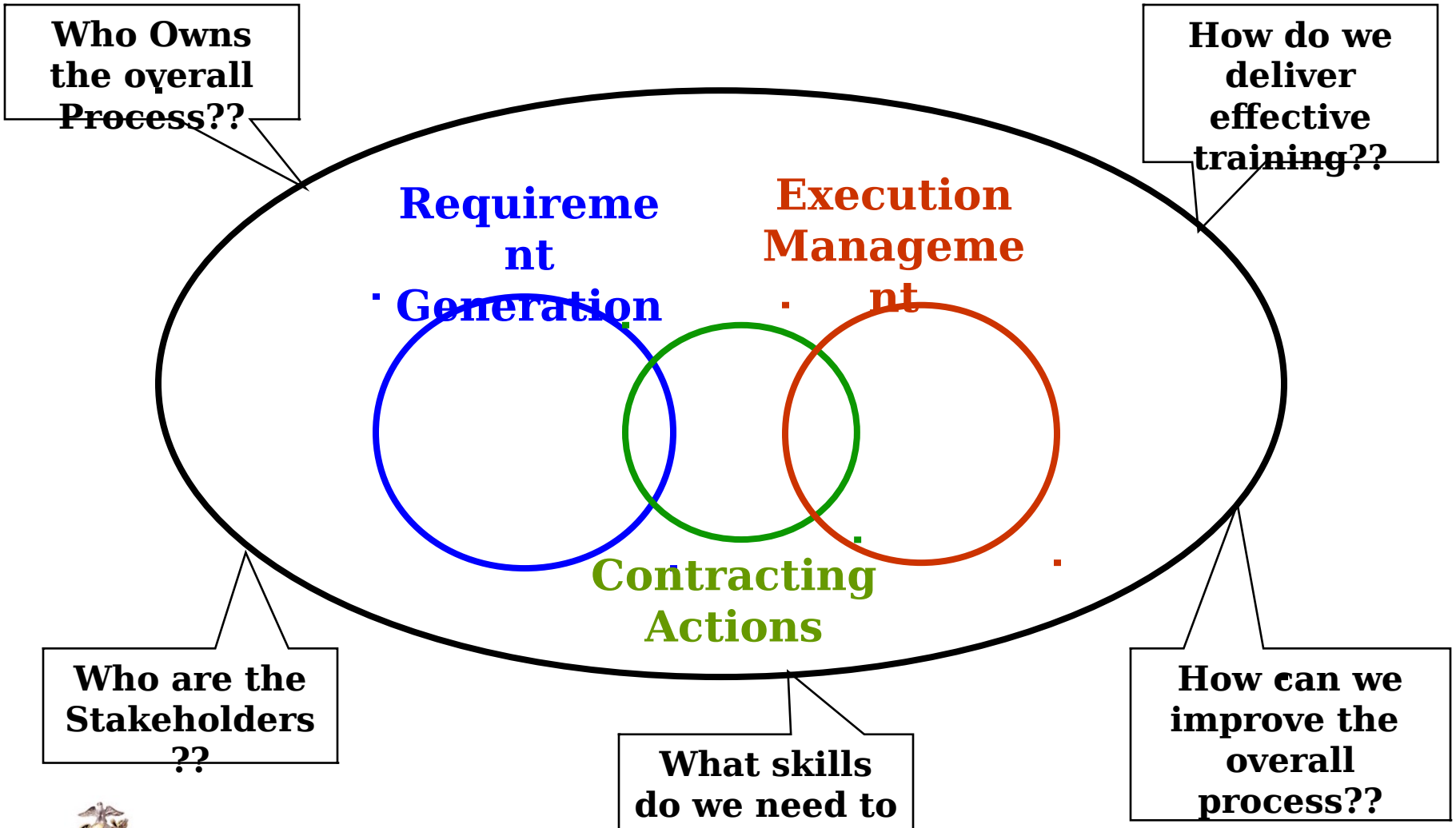
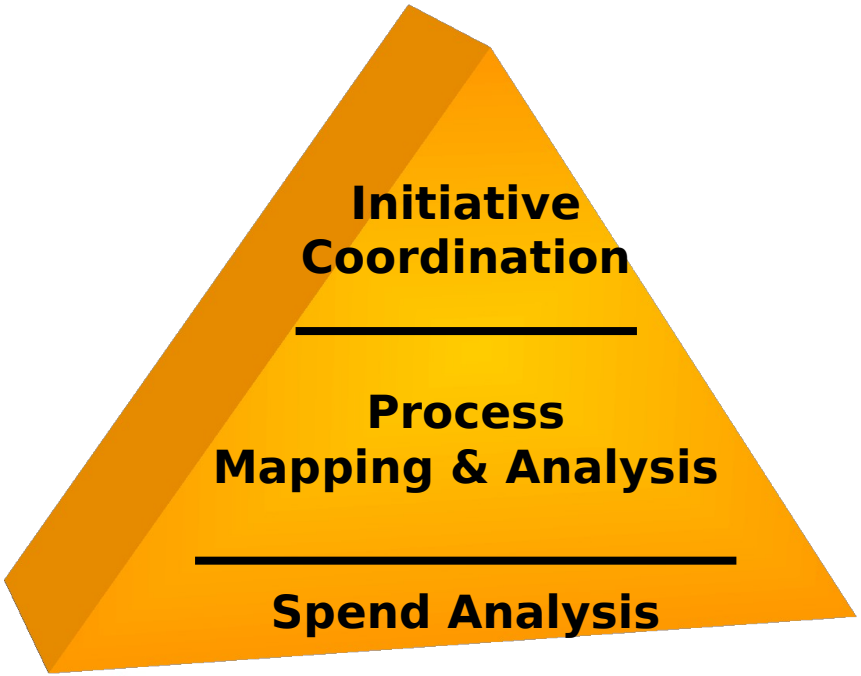
SPI Is More Than Contracting


Who Owns the overall Process??
How do we deliver effective training??
Requirement Generation
Execution Management
Contracting Actions
Who are the Stakeholders ??
What skills do we need to develop??
How can we improve the overall process??

SPI Dual Approach

How can we improve Marine Corps purchasing of <u>products</u> and <u>services</u>?

Service Acquisition



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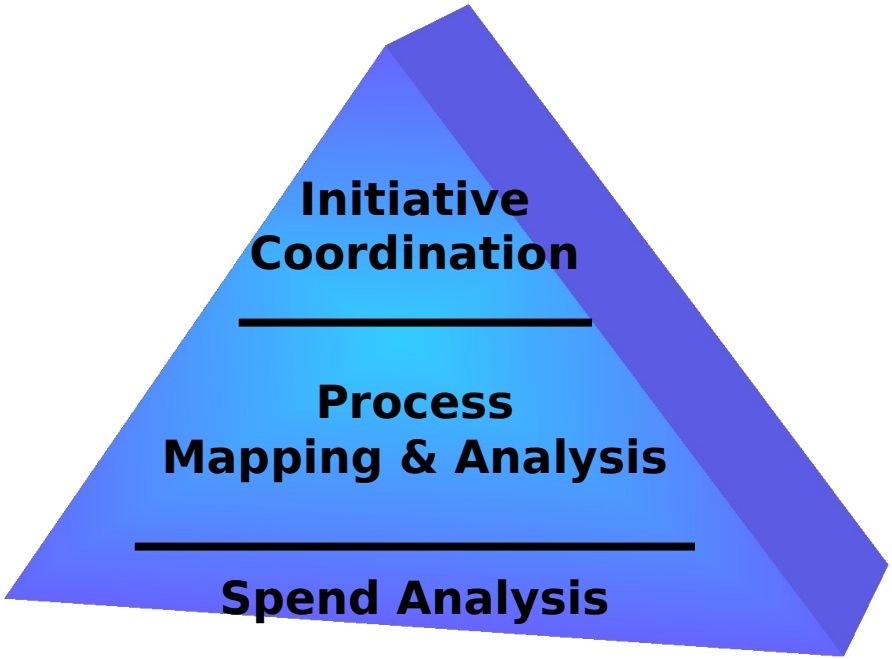
Product Acquisition



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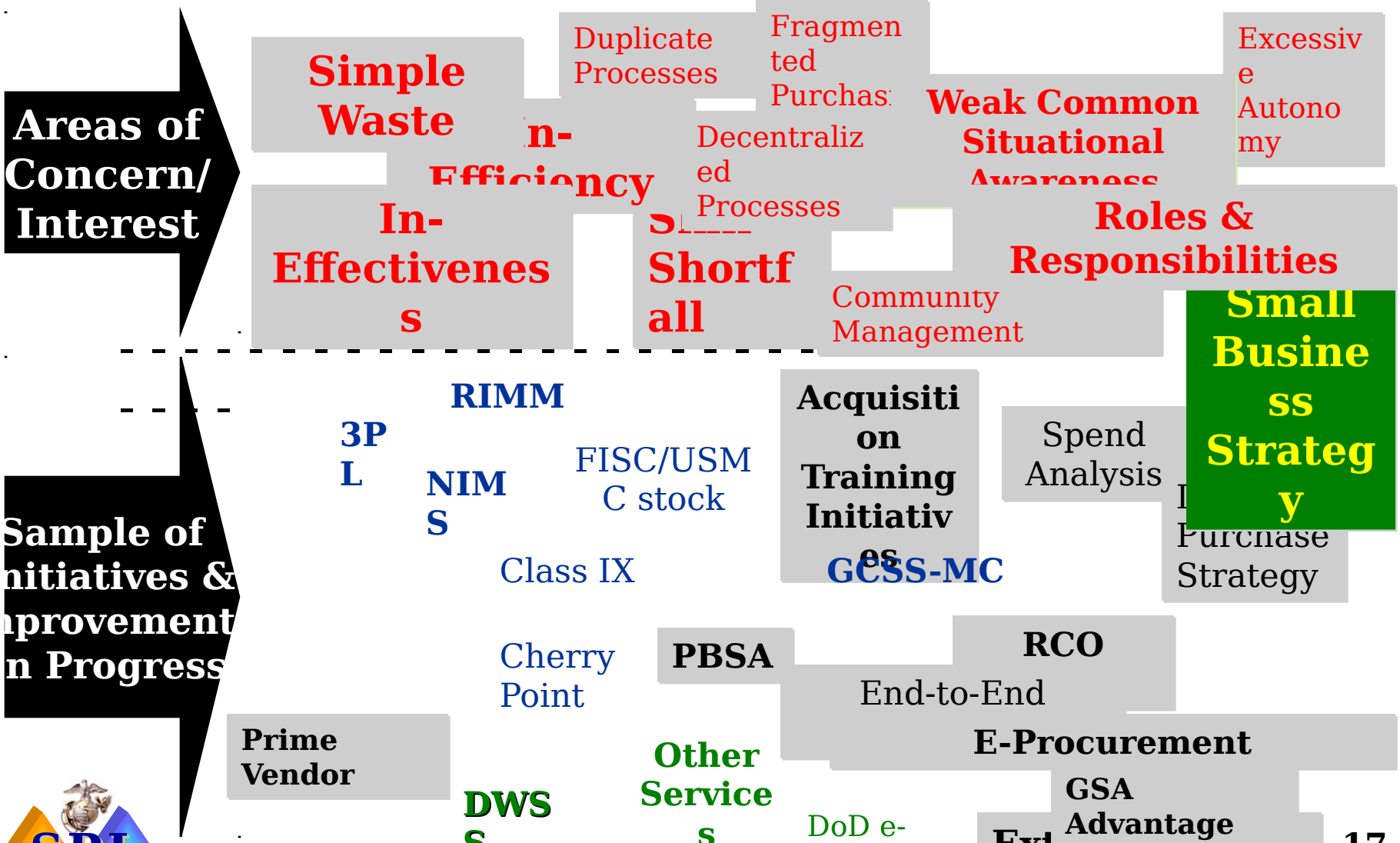
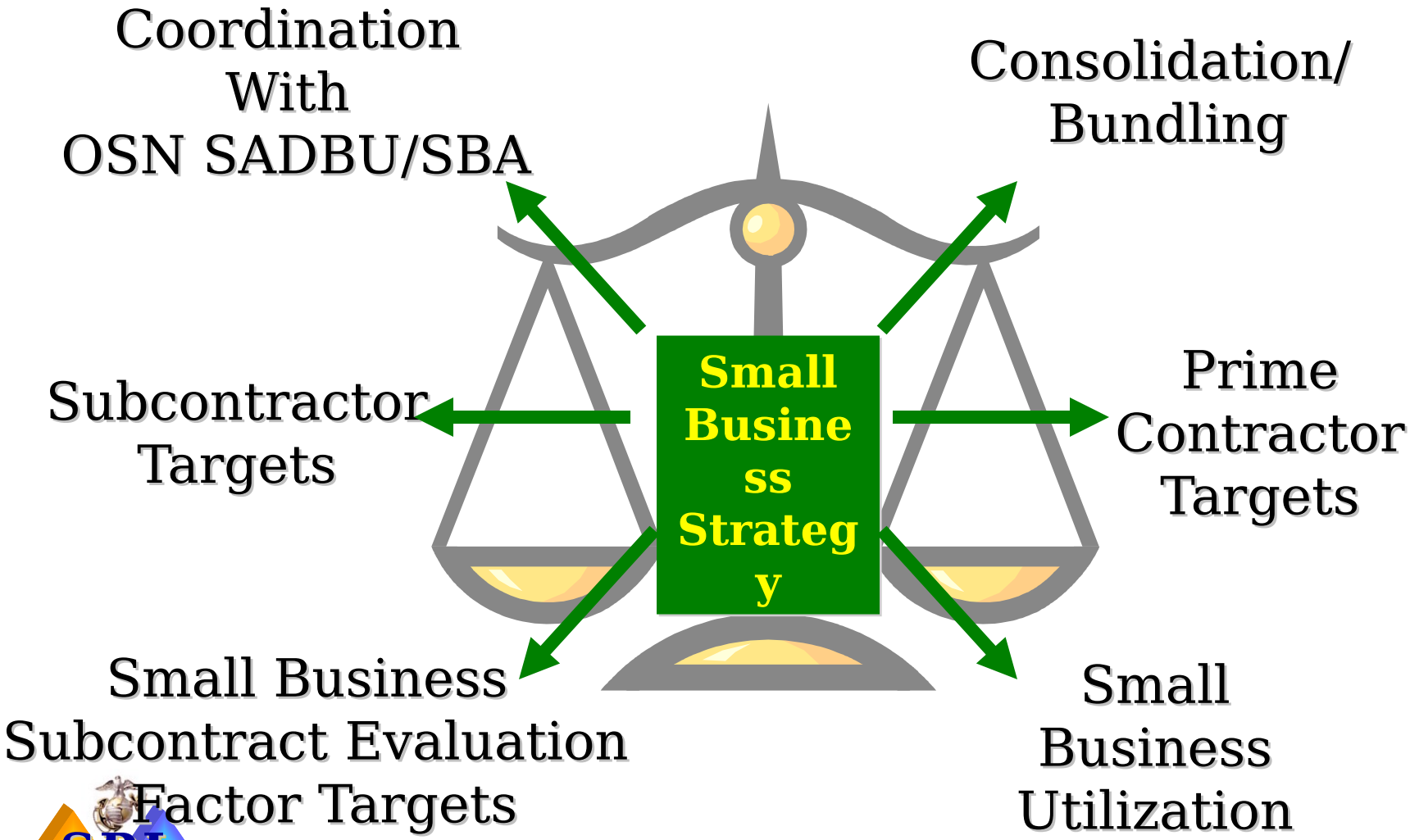
The Battlefield



Small Business Strategy: Balancing Needs



Expected Results from SPI

SPI Overall →

Tangible Savings Results and Required Investments

- **1% per year for PR07 (commitment in Nov 04)**
- **TBD % per year for POM08 (commitment in Nov 05)**

Initiative Coordination →

- **Existing initiative deliverables for use with SPI**
- **Eliminate duplication of effort**
- **Identify areas requiring further attention**

Process Mapping & Analysis →

- **Process standardization**
- **Process best practices**
- **Acquisition training**
- **Roles and responsibilities defined**
- **End-to-end synchronization**

Spend Analysis →

- **Purchasing consolidation**
- **Supplier partnering & DoD partnering**

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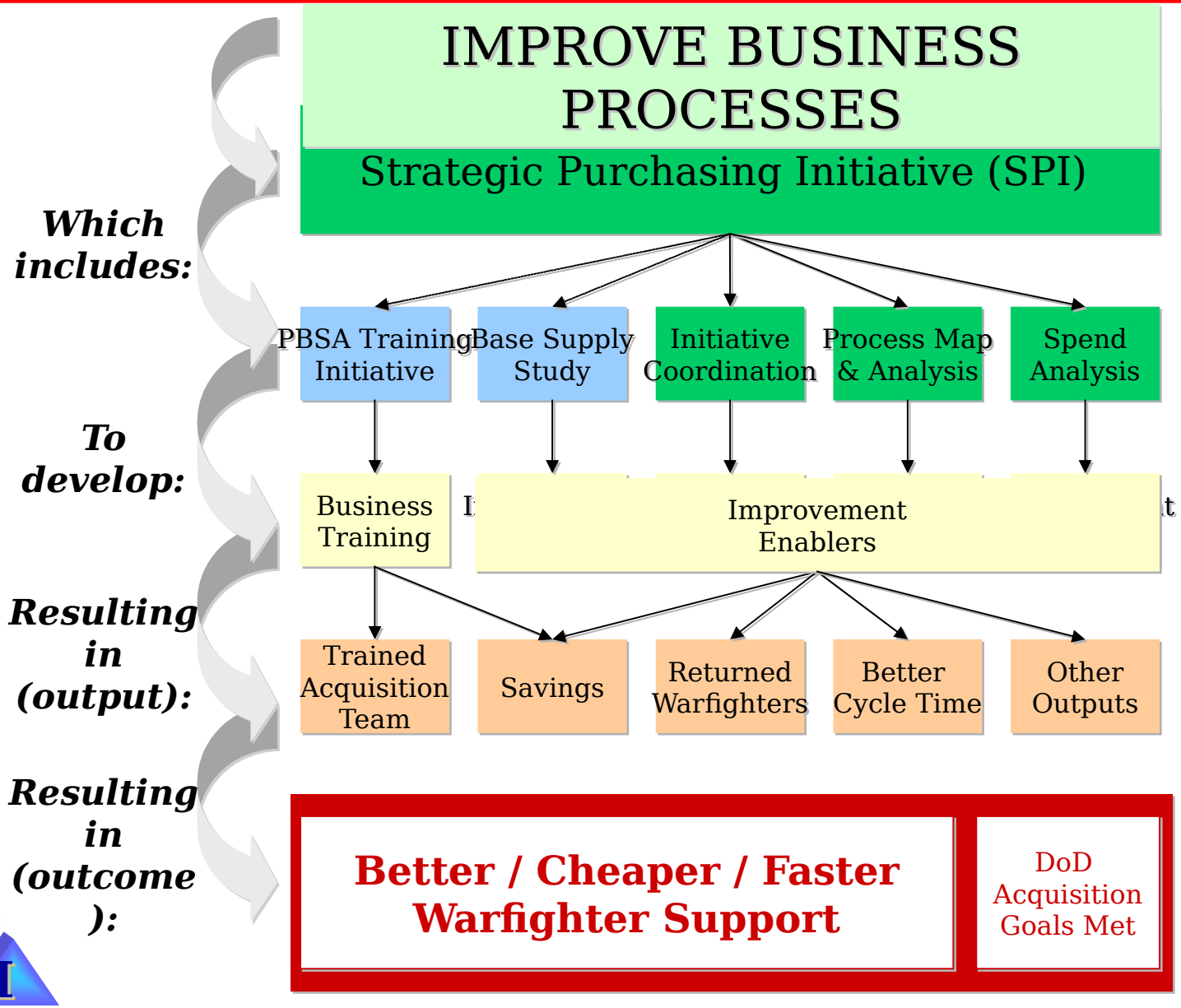
SPI Vision and Relationships



Summary

- **Significant resources are spent in purchasing**
  - Significant amount is for services
  - Significant amount going outside USMC contracting
- **Other organizations have dramatically improved purchasing**
- **Need better skills**
  - To frame and maintain relations to external providers key issue
- **Need to support small business goals**
- **Deliberate program to improve process/reduce costs over POM08 is needed to help CMC finance critical MAGTF investment – without impacting local programs**

SPI

Bottom Line

The Marine Corps is a combat force -- not a business. To be successful, however, we need to support warfighting excellence with well-managed business processes that are both effective and efficient.

- M.W. Hagee

Commandant of the Marine Corps

SPI

BACKUP SLIDES

7 Business Processes

- **Installation Support (DC, I&L)**
- **CSS/Logistics (DC, I&L)**
- **Acquisition (SysCom; DC, I&L)**
- **Information Technology (C4I)**
- **Training (DC/CD/MCCDC)**
- **Financial Management (DC, P&R)**
- **Human Resource Management (DC, M&RA)**